

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00 /112 W
-----049843 251140Z /15

P R 250920Z AUG 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 517
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: FIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 18-24, 1977

1. SUMMARY: CONSENSUS FORMING ON STIMULUS MEASURES
PROCEEDS, WITH TARGET NOW EARLY SEPT INSTEAD OF LATE AUGUST.
BANK OF JAPAN ADOPTS ACCOMMODATING STANCE TOWARD PROPOSED
DISCOUNT RATE CUT WITH GOVERNOR MORINAGA SAYING ANY RESULTANT
IMPACT ON EXCHANGE RATE CAN BE HANDLED BY BOJ. ECONOMIC PLANNING
AGENCY REPORTEDLY NOW EXPECTS \$5 TO \$6 BILLION CURRENT ACCOUNT
SURPLUS FOR FY 77. WIDE RANGE OF REVISED GROWTH FORECASTS LEAKED
TO PRESS AS MINISTRIES LOBBY FOR PREFERRED STIMULUS PROGRAMS.
JUN INDUSTRIAL PRODUCTION FIGURES REVISED SUBSTANTIALLY UPWARD.
DEPARTMENT STORE SALES PERK UP IN JULY BUT UNEMPLOYMENT WORSENS
IN JUNE. END SUMMARY.

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2. HAVING RETURNED FROM HIS SOUTHEAST ASIA TOUR, PRIME
MINISTER FUKUDA HAS PLUNGED INTO A ROUND OF CONSULTATION
WITH BUSINESS, POLITICAL AND GOVERNMENT OFFICIALS CONCERN-
ING WHAT STEPS SHOULD BE TAKEN TO STIMULATE THE ECONOMY.
AFTER HIS TALKS WITH LIBERAL DEMOCRATIC PARTY LEADERS ON
WEDNESDAY AUGUST 24, IT WAS REPORTED THAT FUKUDA HAD CHANGED

DATE THE GOVERNMENT WOULD MAKE ITS DECISIONS FROM END AUGUST TO AROUND SEPTEMBER 5 OR 6. THIS WOULD GIVE THE PM TIME TO EXAMINE LATE AUGUST ECONOMIC INDICATORS ON INDUSTRIAL PRODUCTION AND PRICES AS WELL AS THE PRELIMINARY ESTIMATES OF GNP WHICH ARE DUE OUT IN EARLY SEPTEMBER. BUSINESS AND POLITICAL LEADERS CONTINUE TO URGE BOLDNESS.

3. BANK OF JAPAN (BOJ) GOVERNOR MORINAGA IN A PRESS CONFERENCE AUGUST 24 INDICATED THE BOJ MAY BE PREPARED TO ACCOMMODATE THE DESIRES OF GOVERNMENT AND BUSINESS FOR A FURTHER CUT IN DISCOUNT RATE. THIS STATEMENT COMPARES WITH MORINAGA'S RECENT PUBLIC STATEMENTS THAT ADDITIONAL INTEREST RATE CUTS WERE NOT NECESSARY. IN HIS WEDNESDAY APPRAISAL MORINAGA SAID THAT WITH DEMAND FOR CREDIT STILL SLUGGISH, LOWER INTEREST COULD BE MAINTAINED WITHOUT RISKING AN INFLATIONARY EXPANSION OF BANK LIQUIDITY. MORINAGA ADDRESSED SPECIFICALLY THE QUESTION OF THE EFFECT OF LOWER JAPANESE INTEREST RATES ON THE EXCHANGE RATE. HE STATED THAT, AT PRESENT INTEREST RATE DIFFERENTIALS, THE SHIFT INTO YEN FINANCING OF IMPORTS WAS EXPANDING. WITH A FURTHER WIDENING OF THE INTEREST DIFFERENTIAL, HE EXPECTS THERE WOULD BE AN INCREASE IN THE RATE OF SUCH YEN SHIFT WHICH MIGHT TEMPORARILY CAUSE DOWNWARD PRESSURE ON THE EXCHANGE RATE. HE ASSERTED THAT ANY SUCH PRESSURE WOULD ONLY BE TEMPORARY. MORINAGA SPECIFICALLY SAID THAT IF SUCH PRESSURES CAUSED THE EXCHANGE RATE TO FLUCTUATE TOO MUCH, THE BOJ WOULD CONSIDER MARKET INTERVENTION TO STABILIZE

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THE RATE. MORINAGA MADE IT CLEAR THAT DOMESTIC CONSIDERATIONS WOULD BE THE OVERRIDING CONCERN IN DECIDING ON FURTHER INTEREST RATE CUTS.

4. PRESS REPORTS SAY THE ECONOMIC PLANNING AGENCY (EPA) IS REVISING CONSIDERABLY ITS INTERNAL FORECASTS OF THE PATTERN OF GROWTH IT EXPECTS IN FY 1977. A \$5 BILLION TO \$6 BILLION CURRENT ACCOUNT SURPLUS IS NOW ACKNOWLEDGED PRIVATELY. ESTIMATES OF GROWTH IN ALL OTHER ELEMENTS OF PRIVATE DOMESTIC DEMAND WILL REPORTEDLY BE SCALED BACK SOMEWHAT, ALTHOUGH GOVERNMENT CAPITAL SPENDING ESTIMATES ARE BEING REVISED UPWARD. THINKING IN EPA IS SAID TO BE THAT A YEN 1.5 TRILLION SUPPLEMENTAL BUDGET WOULD ASSURE THE OFFICIAL 6.7 PERCENT GROWTH TARGET --WHICH IS TO REMAIN UNCHANGED-- IS MET. WITHOUT A SUPPLEMENTAL, EPA REPORTEDLY EXPECTS GROWTH TO BE 5.9 PERCENT.

5. MITI AND THE MINISTRY OF FINANCE (MOF), AMONG OTHER AGENCIES ACTIVE IN THE 6.7 PERCENT GROWTH SEEEPSTAKES, HAVE ALSO WEIGHED IN WITH THEIR VIEWS ON LIKELY GROWTH WITH AND WITHOUT A SUPPLEMENTAL BUDGET. ACCORDING TO PRESS REPORTS, EXPANSIONIST-MINDED MITI THINKS GROWTH WILL SLOW TO A 5.3 - 5.5 PERCENT RANGE WITHOUT

A SUPPLEMENTAL AND SAYS THE TARGET COULD BE HIT WITH A YEN 2.1 TRILLION TO YEN 2.5 TRILLION STIMULUS PACKAGE. THE MOF THINKS GROWTH WITHOUT A SUPPLEMENTAL WILL BE 6.2 PERCENT SO ONLY YEN 0.9 TRILLION IS NEEDED TO HIT THE OFFICIAL GROWTH TARGET.

6. MOF IS REPORTED TO BE INVESTIGATING THE POSSIBILITY OF SELLING 10-YEAR GOVT BONDS HELD BY TRUST FUND BUREAU TO PRIVATE MARKET IN ORDER TO RAISE A PART OF FUNDS NECESSARY FOR A STIMULATIVE SUPPLEMENTARY BUDGET, JAPAN ECONOMIC JOURNAL REPORTED RECENTLY. THE

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TRUST FUND BUREAU IS OPERATED BY THE GOVT AND OBTAINS ITS FUNDS CHIEFLY FROM POSTAL AND PENSION FUNDS. MOST OF THE TRUST FUND BUREAU FUNDS ARE LOANED TO GOVT-AFFILIATED AGENCIES UNDER FISCAL LOAN AND INVESTMENT PROGRAM, BUT SOME OF THEM ARE INVESTED IN 10-YEAR GOVT BONDS. OUTSTANDING LONG-TERM GOVT BONDS HELD BY TRUST FUND BUREAU AMOUNTED TO 3.6 TRILLION YEN (APPROXIMATELY \$13.5 BILLION AT 265 YEN PER DOLLAR) AT END OF JUNE THIS YEAR. ACCORDING TO THE PRESS REPORT, MOF WOULD ENTRUST SUCH BOND SALES TO BOJ IN ORDER TO AVOID DUPLICATION OF BOJ OPEN MARKET OPERATION IN MONETARY POLICIES. FINANCIAL INSTITUTIONS FOR AGRICULTURE AND FORESTRY ARE LIKELY TO BE MAJOR BUYERS OF SUCH BONDS.

7. LABOR CONDITIONS DETERIORATED FURTHER IN JUNE EXCEPT FOR SMALL IMPROVEMENT UNIT LABOR COST, ACCORDING TO EPA ESTIMATES, THE NUMBER OF UNEMPLOYED (S.A.) ROSE FURTHER TO 1.19 MILLION PERSONS IN JUNE, UP 50,000 OVER MAY LEVEL.
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CONSEQUENTLY, JUNE UNEMPLOYMENT RATE ADVANCED TO 2.2 PERCENT BRINGING THE UNEMPLOYMENT RATE TO THE HIGHEST IN PAST 18 YEARS. (NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL FACTORS THAN EPA, REPORTS THAT JUNE UNEMPLOYMENT RATE WAS 2.1 PERCENT.) OVERTIME WORKED IN MANUFACTURING INDUSTRIES DECLINED FOR SECOND STRAIGHT MONTH IN JUNE, WITH ACCELERATING RATE OF DECLINE FROM PRIOR MONTH. JOB OFFERS/APPLICANTS RATIO CONTINUED TO DECLINE IN JUNE TO 0.53, SETTING A NEW RECORD LOW FOR THIS SERIES. UNIT LABOR COSTS, HOWEVER, IMPROVED DURING THE MONTH.

LABOR CONDITIONS

JEI NO.	SERIES (UNIT)	APR	MAY	JUN
385	JOB OFFERS/APPLICANTS RATIO	0.59	0.55	0.53
401	MFG. OVERTIME (1975 EQUALS 100)	145.7	143.3	140.0
378	UNEMPLOYED (THOUSANDS)	1,020	1,140	1,190
379	UNEMPLOYMENT RATE (PERCENT)	1.9	2.1	2.2
421	UNIT LABOR COST (1970 EQUALS 100)	191.0	193.7	191.7
		FEB	MAR	APR
N/A	LABOR PRODUCTIVITY MACHINER (1970 EQUALS 100)	176.2	175.6	174.0

(NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA.)

8. INDUSTRIAL PRODUCTION FIGURES FOR JUNE WERE REVISED UPWARD SIGNIFICANTLY (SEE TOKYO 12692). MINING AND MANUFACTURING PRODUCTION IS NOW REPORTED TO BE UP A HEALTHY 1.6 PERCENT (S.A.) FOR THE MONTH, COMPARED TO A PRELIMINARY ESTIMATED OF 0.5 (S.A.) PERCENT. SHIPMENTS WERE ALSO
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REVISED UPWARD TO 0.7 (S.A.) PERCENT, COMPARED TO A PRELIMINARY FIGURE OF MINUS 0.2 (S.A.) PERCENT.

9. DEPARTMENT STORE SALES, SEASONALLY ADJUSTED, ROSE

SHARPLY IN JULY, UP 5.5 PERCENT OVER PRIOR MONTH'S
LEVEL, AFTER REGISTERING SLUGGISH PERFORMANCE IN THE
SECOND QUARTER OF THIS YEAR. SALES OF ALL MAJOR ITEMS
INCREASED IN JULY (S.A.). IN PARTICULAR, RAPID RECOVERY
OF SALES OF CLOTHING AND FOODSTUFFS WAS MAJOR CONTRIBUTOR
TO BULLISH DEPARTMENT STORE SALES DURING THE MONTH.
DEPARTMENT STORE SALES, SEASONALLY ADJUSTED
(JEI 302)

	INDEX (1970 EQUALS 100)	PCT CHANGE FROM PRIOR MONTH
MAY	260.6	0.7
JUNE	252.5	MIN 3.1
JULY	266.3	5.5

10. EXPORT AND IMPORT CONTRACT PRICE INDICES (1970 EQUALS
100, N.S.A., JEI 80 AND 88, RESPECTIVELY) CONTINUED TO
DECLINE IN JULY TO 134.8 AND TO 200.8 RESPECTIVELY.
COMPARABLE JUNE FIGURES WERE 136.5 FOR EXPORTS AND
208.0 FOR IMPORTS.
MANSFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 25-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770307-0299
Format: TEL
From: TOKYO EEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770821/aaaaaroq.tel
Line Count: 244
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d786e852-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1480071
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 18-24, 1977
TAGS: ECON, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/d786e852-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009